

Line 510 – Description of Compliance with Service Quality Standards and Consumer Protection

Hot Springs Telephone Co. certifies that it complies with applicable state, federal and FCC service quality and consumer protection standards. Hot Springs Telephone Co. has implemented numerous measures to protect customer information. We have implemented Customer Proprietary Network Information policies and procedures that comply with the FCC's regulations. Each new employee must sign a "Confidentiality of Communications Agreement" on their first day of employment. In addition, they are trained on CPNI rules and procedures. All customer accounts are protected with a password, and information can only be given to a person listed on the account who provides the password.

#### Line 610 – Description of Functionality in Emergency Situations

Hot Springs Telephone Co. certifies that we follow practices that will allow us to remain functional in an emergency situation. We have a propane gas powered emergency generator that automatically starts when electricity fails. The generator is tested weekly to ensure its operability, and propane levels are maintained at high levels. In addition, we have battery backup that will provide approximately 6 hours of backup power.

Hot Springs Telephone Co. has employees on call and resources available 24 hours per day, 7 days per week to address repairs to damaged facilities.

Hot Springs Telephone Co. has equipment and employees available 24 hours per day, 7 days per week to address traffic spikes resulting from emergency situations.

**HOT SPRINGS TELEPHONE COMPANY  
TRIBAL ENGAGEMENT FCC FILING**

**47 C.F.R. § 54.313(a)(9)**

January 1, 2017

In accordance with Rule 47 C.F.R. § 54.313(a)(9), the FCC "Tribal Engagement" requirement, Hot Springs Telephone Company (HSTC) submits the following information with its Form 481 filing due on or before July 1, 2017.

Hot Springs Telephone Company is an independently owned rate-of-return Incumbent Local Exchange Carrier, whose study area is located on the Flathead Indian Reservation (the Confederated Salish and Kootenai Tribes, CSKT) in western Montana. HSTC serves approximately 800 customers, which includes many Native American Tribal members.

HSTC met with the Tribal Council of the Confederated Salish and Kootenai Tribes on October 27, 2016 to discuss the FCC Tribal Engagement requirements, pursuant to the FCC Guidelines.

The following document is included herein in compliance with the filing requirement:  
Summary of Meeting with Tribal Council, October 27, 2016.

Respectfully Submitted,



Kathe Ann Johnson, Treasurer  
Hot Springs Telephone Company

Hot Springs Telephone Company  
Hot Springs, Montana  
Tribal Engagement Summary

October 27, 2016 Meeting with Confederated Salish and Kootenai (CSKT) Tribal Council  
Laurence A. Walchuk–Hot Springs Telephone Company

1. Needs Assessment and Deployment Planning–With a Focus on Anchor Institutions

Discussed needs and planning. I also explained that we work with CSKT Technology Department for all CSKT needs and any additional anchor institutions they have, including the Tribal Health Office.

2. Feasibility and Sustainability Planning

Discussed build-out plans for allowing customers higher bandwidth. They requested a “101 Class” to explain all the technology and terms we use in the telecommunications world. We agreed to hold a training for all Tribal Council staff in the next two months.

3. Marketing in a Culturally Sensitive Manner

Handed out brochures for Internet & Lifeline. Explained how we would like to work with all departments on the new broadband Lifeline program to include training sessions. Handed out marketing material for them to pass along to members for program awareness.

4. Rights of Way Processes, Land-Use Permitting, Facilities Siting, Environmental and Cultural Preservation Review Processes

Asked if they had any questions on any right-of-way or cultural preservation issues, and they said they were happy with how we handled them.

5. Compliance with Tribal business and licensing requirements.

This does not apply to CSKT. They do not have any business licensing requirements.



## **LINE 1010 – VOICE SERVICES RATE COMPARABILITY**

The Wireline Competition Bureau's 2017 reasonable comparability benchmark for voice services is \$49.51, which includes the federal subscriber line charge ("SLC").<sup>1</sup>

In all of the exchanges served by Hot Springs Telephone Company ("the Company"), the single-line residential local rate in effect as of January 1, 2017 was \$23.00 urban and 26.00 rural. When the federal SLC (\$6.50) is included, the total rate was \$29.50 urban and \$32.50 rural. Therefore, the Company's pricing of fixed voice services is less than the reasonable comparability benchmark of \$49.51.

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<sup>1</sup> *Wireline Competition Bureau Announces Results of 2017 Urban Rate Survey for Fixed Voice and Broadband Services, Posting of Survey Data and Explanatory Notes, and Required Minimum Usage Allowance for ETCs Subject to Broadband Public Interest Obligations*, Public Notice, WC Docket No. 10-90, 32 FCC Rcd 1358 (2017).

## **LINE 1030 – BROADBAND SERVICES RATE COMPARABILITY**

As of January 1, 2017, Hot Springs Telephone Company was charging a residential rate of \$46.95 for broadband providing 10 Mbps download, 1 Mbps upload, and an unlimited usage allowance. This rate is lower than \$77.98, which is the 2017 reasonable comparability benchmark for the same offering established by the Wireline Competition Bureau.<sup>1</sup>

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<sup>1</sup> *Wireline Competition Bureau Announces Results of 2017 Urban Rate Survey for Fixed Voice and Broadband Services, Posting of Survey Data and Explanatory Notes, and Required Minimum Usage Allowance for ETCs Subject to Broadband Public Interest Obligations*, Public Notice, WC Docket No. 10-90, 32 FCC Rcd 1358 (2017).

## **LINE 3010 – CERTIFICATION OF PUBLIC INTEREST OBLIGATIONS**

Hot Springs Telephone Company (“the Company”) hereby certifies that the Company has taken reasonable steps to provide upon reasonable request broadband service at actual speeds of at least 10 Mbps downstream/1 Mbps upstream, with latency suitable for real-time applications, including Voice over Internet Protocol, and usage capacity that is reasonably comparable to comparable offerings in urban areas, and that requests for such service were met within a reasonable amount of time.

**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**



**HOT SPRINGS TELEPHONE  
COMPANY**

**FINANCIAL REPORT**

**December 31, 2016 and 2015**





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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Shareholders  
Hot Springs Telephone Company  
Hot Springs, Montana

We have reviewed the accompanying financial statements of Hot Springs Telephone Company (a corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Hot Springs Telephone Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion**

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

**Supplementary Information**

The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the information. We have not audited the information and, accordingly, do not express an opinion on such information.

*Anderson Zurmuehlen & Co., P.C.*

Missoula, Montana

March 16, 2017

## FINANCIAL STATEMENTS

## HOT SPRINGS TELEPHONE COMPANY

## BALANCE SHEETS

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 592,467	\$ 533,975
Accounts receivable, net	49,914	60,791
Accounts receivable - subscribers	19,678	4,169
Inventory	618	1,341
Prepaid expenses and other current assets	<u>6,450</u>	<u>13,460</u>
Total current assets	<u>669,127</u>	<u>613,736</u>
INVESTMENTS	1,000	1,000
LAND, BUILDINGS, AND EQUIPMENT, NET	<u>863,600</u>	<u>938,468</u>
Total assets	<u>\$ 1,533,727</u>	<u>\$ 1,553,204</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 41,273	\$ 27,005
Accrued liabilities	<u>89,644</u>	<u>149,804</u>
Total current liabilities	130,917	176,809
DEFERRED INCOME TAX LIABILITY	<u>51,592</u>	<u>43,372</u>
Total liabilities	<u>182,509</u>	<u>220,181</u>
STOCKHOLDERS' EQUITY		
Common stock, \$100 par value, 1,000 shares authorized, 875 shares issued, 575 outstanding	87,500	87,500
Additional paid-in capital	10,832	10,832
Retained earnings	1,377,886	1,359,691
Less treasury stock (300 shares)	<u>(125,000)</u>	<u>(125,000)</u>
Total stockholders' equity	<u>1,351,218</u>	<u>1,333,023</u>
Total liabilities and stockholders' equity	<u>\$ 1,533,727</u>	<u>\$ 1,553,204</u>

See Independent Accountant's Review Report.  
The Notes to Financial Statements are an integral part of these statements.



HOT SPRINGS TELEPHONE COMPANY  
STATEMENTS OF OPERATIONS  
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUE	\$ 1,425,879	\$ 1,620,598
OPERATING EXPENSES	<u>1,412,072</u>	<u>1,656,430</u>
Income (loss) from operations	<u>13,807</u>	<u>(35,832)</u>
OTHER INCOME (EXPENSE)		
Interest income	906	1,377
Miscellaneous income, net	11,335	35,682
Rent	1,200	1,200
Interest expense	<u>(833)</u>	<u>(994)</u>
Total other income	<u>12,608</u>	<u>37,265</u>
Income before income taxes	26,415	1,433
Income tax provision	<u>8,220</u>	<u>2,936</u>
Net income (loss)	<u>\$ 18,195</u>	<u>\$ (1,503)</u>

See Independent Accountant's Review Report.  
The Notes to Financial Statements are an integral part of these statements.

HOT SPRINGS TELEPHONE COMPANY  
STATEMENTS OF STOCKHOLDERS' EQUITY  
Years Ended December 31, 2016 and 2015

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
January 1, 2015	\$ 87,500	\$ 10,832	\$ 1,361,194	\$ (125,000)	\$ 1,334,526
Net loss	<u>-</u>	<u>-</u>	<u>(1,503)</u>	<u>-</u>	<u>(1,503)</u>
December 31, 2015	87,500	10,832	1,359,691	(125,000)	1,333,023
Net income	<u>-</u>	<u>-</u>	<u>18,195</u>	<u>-</u>	<u>18,195</u>
December 31, 2016	<u>\$ 87,500</u>	<u>\$ 10,832</u>	<u>\$ 1,377,886</u>	<u>\$ (125,000)</u>	<u>\$ 1,351,218</u>

See Independent Accountant's Review Report.  
The Notes to Financial Statements are an integral part of these statements.

HOT SPRINGS TELEPHONE COMPANY  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 18,195	\$ (1,503)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation	125,858	156,812
Loss on disposal of assets	11,695	-
Change in operating assets and liabilities:		
Receivables	(4,632)	37,653
Inventory	723	1,792
Prepaid expenses and other current assets	7,010	50
Deferred income tax liability	8,220	2,936
Accounts payable	14,268	(3,974)
Accrued liabilities	(60,160)	(44,158)
Total adjustments	<u>102,982</u>	<u>151,111</u>
Net cash flows from operating activities	<u>121,177</u>	<u>149,608</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of land, buildings, and equipment	<u>(62,685)</u>	<u>(36,302)</u>
Net cash flows from investing activities	<u>(62,685)</u>	<u>(36,302)</u>
Net change in cash and cash equivalents	58,492	113,306
Cash and cash equivalents, beginning of year	<u>533,975</u>	<u>420,669</u>
Cash and cash equivalents, end of year	<u>\$ 592,467</u>	<u>\$ 533,975</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 833</u>	<u>\$ 994</u>

See Independent Accountant's Review Report.  
The Notes to Financial Statements are an integral part of these statements.

HOT SPRINGS TELEPHONE COMPANY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Company Profile**

Hot Springs Telephone Company (the Company) is a locally owned telecommunications company serving the needs of Hot Springs, Montana. The Company provides local telephone, digital subscriber line (DSL), broadband, and other telecommunication services. The Company operates within the public switched telephone network (PSTN), which allows other providers access to the Company's network. As a telecommunication provider, the Company is subject to regulation by the Federal Communications Commission (FCC). The Company is also a member of the National Exchange Carrier Association, Inc. (NECA). As part of the NECA membership, the Company receives a monthly cost reimbursement for operating in a rural location. Accordingly, Hot Spring's ability to operate successfully is affected by the economic conditions within its geographic area and its monthly cost reimbursements.

In 2011, the FCC adopted its Transformation Order which reformed carrier switched access rates. Included was a transition of terminating switched access charges to zero over a 10-year period. The recovery mechanism will allow recovery of a portion of lost revenues for 20 years (until 2032). The recovery decreases 5% per year for 20 years (2012 to 2032).

**Basis of Presentation**

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) as codified by the Financial Accounting Standards Board.

**Cash and Cash Equivalents**

For purposes of these statements, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. From time to time, certain bank accounts that are subject to limited FDIC coverage may exceed their insured limits. At December 31, 2016 and 2015, the Company had balances of \$55,754 and \$81,616, respectively, in excess of FDIC coverage.

**Accounts Receivable**

The Company grants credit to customers in the normal course of business. The majority of accounts receivable are from federal government subsidies. Receivables are stated at unpaid balances. Due to inherent uncertainties in estimating the allowance account, it is at least reasonably possible this estimate will change in the near term. Accounts receivable are written off when management determines the receivable is uncollectible. During the years ended December 31, 2016 and 2015, credit losses totaled \$3,358 and \$4,972, respectively. For the years ended December 31, 2016 and 2015, the Company recorded an allowance for doubtful accounts of \$4,200.



HOT SPRINGS TELEPHONE COMPANY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Land, Buildings, and Equipment:**

Land, buildings, and equipment are stated at cost. Expenditures for maintenance and repairs are charged against operations. Betterments that materially extend the life of the assets and in excess of \$500 are capitalized. The Company primarily uses the straight-line method of depreciation for its buildings and equipment. Useful lives of the Company's assets are as follows:

Buildings	19–40 years
Furniture and fixtures	3–7 years
Office equipment	3–7 years
Machinery and equipment	5–15 years

**Advertising Costs**

Advertising costs are charged to operations in the year incurred. Advertising costs for 2016 and 2015 totaled \$18,319 and \$19,545, respectively.

**Income Taxes**

Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets which are depreciated using accelerated methods for tax purposes.

The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before income taxes. The primary differences result from providing for state income taxes and from deducting certain expenses for financial statement purposes but not for federal income tax purposes.

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Subsequent Events**

Management has evaluated subsequent events through March 16, 2017, the date on which the financial statements were available to be issued.



HOT SPRINGS TELEPHONE COMPANY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015

**NOTE 2. LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment at December 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 57,491	\$ 57,491
Buildings	533,556	532,677
Furniture and fixtures	58,770	58,770
Office equipment	841,065	846,951
Machinery and equipment	<u>3,031,315</u>	<u>2,987,391</u>
Total land, buildings, and equipment	4,522,197	4,483,280
Accumulated depreciation	<u>3,658,597</u>	<u>3,544,812</u>
Net land, buildings, and equipment	<u><u>\$ 863,600</u></u>	<u><u>\$ 938,468</u></u>

Depreciation for the years ended December 31, 2016 and 2015 totaled \$125,858 and \$156,812, respectively.

**NOTE 3. ACCRUED LIABILITIES**

Accrued liabilities at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Payroll tax withholdings	\$ 38,900	\$ 56,001
Excise taxes	2,534	3,946
Accounts receivable, net	27,955	68,852
Deposits	<u>20,255</u>	<u>21,005</u>
Total accrued liabilities	<u><u>\$ 89,644</u></u>	<u><u>\$ 149,804</u></u>

**NOTE 4. RELATED PARTY TRANSACTIONS**

The Company purchases billing services from Ronan Telephone Company, a related party. The expense incurred was \$94,942 and \$46,047 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the Company also had payable balances to Ronan Telephone Company of \$5,917 and \$4,694, respectively.

HOT SPRINGS TELEPHONE COMPANY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015

**NOTE 5. INCOME TAXES**

The deferred income tax liability is comprised of the following:

	<u>2016</u>	<u>2015</u>
Fixed assets - depreciation	\$ (92,194)	\$ (103,872)
Net operating loss carryforwards	40,602	59,240
Allowance for doubtful accounts	-	1,260
Net deferred tax liability	<u>\$ (51,592)</u>	<u>\$ (43,372)</u>

As of December 31, 2016 and 2015, the Company has federal and state net operating loss carry forwards of approximately \$141,000 and \$115,000, respectively, which begin to expire in 2033.

**NOTE 6. PROFIT SHARING PLAN**

The Company operates a profit sharing plan (the Plan) in which all employees who have attained the age of 24 and 1/2 and have completed six months of services are eligible. All contributions are discretionary and employees become vested in the Plan 20% per year after two years of service. The Company did not make any contributions to the Plan in 2016 and 2015. Effective January 1, 2017, the Plan was terminated.

**NOTE 7. CONCENTRATIONS**

The Company receives a monthly subsidy from NECA. In 2016 and 2015, the Company recorded revenue from NECA totaling \$420,038 and \$562,640, respectively. At December 31, 2016 and 2015, receivables from NECA totaled \$33,214 and \$42,558. The Company also had receivables from one customer for third party network access totaling \$9,774 and \$13,628 at December 31, 2016 and 2015, respectively.

## SUPPLEMENTARY INFORMATION

HOT SPRINGS TELEPHONE COMPANY  
SCHEDULE 1 – OPERATING EXPENSES  
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Advertising	\$ 18,319	\$ 19,545
Automotive	13,867	17,357
Bad debts	3,358	4,972
Cable and wire	128,944	120,484
Cable TV	4,161	48,170
Computer	190,030	292,276
Consulting and computer support	53,445	64,412
Customer service	135,364	208,006
Depreciation	125,858	156,812
Education and seminars	7,706	18,428
Executive	48,849	59,449
Insurance	12,652	12,274
Miscellaneous	117,914	131,426
Office	144,052	100,112
Plant	106,330	121,704
Property tax	10,663	19,678
Professional fees	138,829	160,194
Repair and maintenance	138,905	84,736
Taxes and licenses	1,622	1,354
Utilities	11,204	15,041
	<u>\$ 1,412,072</u>	<u>\$ 1,656,430</u>

See Independent Accountant's Review Report.



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